SENATE FINANCE & CLAIMS

Exhibit No. 13

Date 3-27-15

Bill No. SB 394

SB394

Description of fiscal impact: SB394 revises the intangible personal property (IPP) exemption for centrally assessed companies by requiring that the value of IPP be determined by the asset value as shown in the taxpayers' books and records, the market value of the IPP or by using the standard exemption adopted in rule. The estimated reduction in state property tax revenue is $2.228 million in FY 2017, $2.333 million in FY 2018, and $2.461 in FY 2019. SB 394 would also have a revenue impact to some local governments and schools.

FISCAL ANALYSIS

Assumptions:

Sponsors Response

1. Under current law, centrally assessed companies are valued as a unit. Statute requires that if IPP value is included in the unit value it must be removed from the unit value (15-6-218). This determines their market value for property tax purposes.
2. The centrally assessed companies IPP exemption is based on the definition of IPP in current statute (15-6-218, MCA) which says all intangible value is exempt from taxation (Upheld by the Gold Creek Decision). Companies may choose to take a standard exemption or petition the Department for a higher deduction based on evidence provided.
3. One hundred and nine (109) Companies will continue to take the standard exemption provided for in rule. The types of companies, the amount of standard exemption, and the number of companies in each category are listed on the table below.

Table 1
IPP Exemption

Industry	Standard IPP	SB 394
Airlines	10.00%	14
Electric	10.00%	13
Electric Co-op	5.00%	31
Pipelines	5.00%	20
Railroads	5.05%	7
Telecommunications	15.50%	15
Telephone Co-ops	5.00%	9
Total		**109**

4. SB 394 makes no changes to the amount of property classified as IPP.

5. SB 394 specifies that IPP is to be determined based on the asset value as reflected on the books and records of the taxpayer or the market value unless the taxpayer chooses to use the standard exemption.
6. Currently there 17 companies that do not take the standard IPP exemption. Two of these companies have undergone an IPP study that valued their market value of IPP greater than their book value of IPP. The following table shows the types of companies and the average IPP exemption.

Table 2 Companies Not Taking the Standard Exemption		
Industry	**Average Current IPP**	**Companies**
Airlines	18.60%	2
Electric	11.00%	1
Electric Co-op	5.40%	1
Pipelines	25.20%	2
Railroads	31.30%	1
Telecommunications	39.80%	9
Telephone Co-ops	6.60%	1
Total		**17**

7. It is assumed that six additional companies will not take the standard exemption under SB 394. Two of these companies will be pipelines which will receive tax reductions of $150,000 each. There will be four telecommunication companies who will also apply for and receive higher exemptions of $100,000 each.
8. The following table, prepared by the DOR and amended to include the 6 companies from assumption #7, lists the 23 companies projected to receive IPP exemptions above the standard exemption. The column on the right shows the projected tax savings per company using the valuation method set forth in SB 394 compared to the DOR methodology implemented following the "Gold Creek Decision". The total savings for the 23 companies is shown at the bottom of the table.

Table 3
SB394 Impact for Companies Receiving More Than Standard Exemption %
Estimated Reduction in Taxes
Based on Tax Year 2014 Data

Co. Name	Industry	Post S.C. Dec. % Exempt	SB 394 Method % Exempt	Post S.C. Dec. Taxes	SB 394 Method Taxes	SB 394 Method Change in taxes by Company
Delta Airlines Inc.	Airlines	23%	44%	$252,186	$184,303	$(67,882)
United Airlines	Airlines	14%	23%	$332,517	$299,226	$(33,291)
Flathead Electric Coop Inc.	Elec. Co-op	5%	5%	$3,116,502	$3,115,682	$(819)
Northwestern Energy	Electric	11%	13%	$86,274,746	$84,188,298	$(2,086,448)
Plains Pipeline LP	Pipelines	8%	11%	$5,189,635	$5,017,587	$(172,048)
Omimex Canada LTD	Pipelines	43%	47%	$1,560,581	$1,441,487	$(119,095)
	Pipeline					(150,000)
	Pipeline					(150,000)
Global Rail Group LLC	Railroads	31%	34%	$1,460,949	$1,399,182	$(61,767)
Mid Rivers Telephone Coop	Tele. Co-ops	7%	9%	$1,079,906	$1,051,685	$(28,221)
Centurylink Inc.	Telecom.	31%	57%	$9,716,776	$5,999,303	$(3,717,473)
Verizon Wireless	Telecom.	69%	82%	$6,817,539	$3,830,275	$(2,987,264)
AT&T Mobility LLC	Telecom.	61%	95%	$1,929,543	$239,109	$(1,690,433)
Citizen Telecom Co. of MT	Telecom.	22%	40%	$239,875	$182,873	$(57,001)
Bresnan Comm. LLC	Telecom.	71%	71%	$7,022,965	$6,972,818	$(50,147)
Zayo Group LLC	Telecom.	26%	31%	$484,855	$456,939	$(27,916)
MTPCS LLC	Telecom.	35%	39%	$261,087	$242,908	$(18,178)
Crown Castle Solution, Inc.	Telecom.	44%	50%	$57,545	$51,658	$(5,887)
Blackfoot Comm. Inc.	Telecom	16%	18%	$226,553	$221,930	$(4,624)
	Telecom					(100,000)

	Telecom					(100,000)
	Telecom					(100,000)
	Telecom					(100,000)
Total				**$126,023,759**	**$114,895,264**	**$(11,728,495)**

9. A mill levy of 500 mills is applied to the tax savings in the previous table to determine the reduction in Taxable Value (TV) resulting from the implementation of SB 394.
10. Taxable value (TV) for centrally assessed companies for TY 2014 (FY 2015) is approximately $689.84 million. This bill applies to tax years beginning TY 2016 (FY 2017). Applying HJ 2 growth rates for FY 2016 and FY 2017, and OBPP rates for FY 2018 and FY 2019, the following table shows the current law TV, proposed TV, and the difference for the 23 companies listed in the above table.

Table 4 Change in TV			
FY	**Current TV**	**Proposed TV**	**Difference**
FY 2017	$753,352,352	$729,895,362	$23,456,990
FY 2018	$778,539,249	$753,981,909	$24,557,340
FY 2019	$806,277,754	$780,371,276	$25,906,478

11. The following table shows the state loss of revenue due to SB 394. State revenue includes the 6 mills levied for the University system and 95 mills levied for K-12 education.

Table 5 Change in State Taxes			
FY	**Loss in 6-Mill**	**Loss in GF Mills**	**Total Revenue Loss**
FY 2017	$140,742	$2,228,414	$2,369,156
FY 2018	$147,344	$2,332,947	$2,480,291
FY 2019	$155,439	$2,461,115	$2,616,554

12. This bill may affect more than centrally assessed property owners; a this time the department does not receive sufficient detail from those owners to fully evaluate the effect of the expanded list of intangible personal property.
13. There may be some change in the State GTB costs which we do not have the ability to calculate.
14. There are not costs to the department.